

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Hamtramck, Michigan</u>	County Wayne
Audit Date June 30, 2005	Opinion Date December 14, 2005	Date Accountant Report Submitted To State: December 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

# **City of Hamtramck, Michigan**

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**Financial Report  
with Additional Information  
June 30, 2005**

# City of Hamtramck, Michigan

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# City of Hamtramck, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and City Council  
City of Hamtramck, Michigan

We have audited the accompanying general purpose financial statements of the City of Hamtramck, Michigan as of June 30, 2005 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Hamtramck, Michigan's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 4, the capital assets recorded in the Water and Sewer Enterprise Fund do not include any assets acquired before June 30, 1986. Had such assets been recorded, the capital assets and fund equity would have been increased from the amounts reported in these general purpose financial statements, and depreciation expense would have been increased. In addition, as discussed in Note 9, the City has a net pension obligation resulting from pension contributions in the 1980s and 1990s that were less than the actuarially required amounts. This liability has not been valued and recorded in the General Long-term Debt Account Group. The liability for both the fixed assets and net pension obligation has not been determined.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and City Council  
City of Hamtramck, Michigan

The accompanying general purpose financial statements do not present government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. In addition, the combining component unit information presents only modified accrual information. Furthermore, the City has not followed the formatting of separately reporting its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. The City has continued to report information by fund type and account group; the General Fixed Assets Account Group excludes general infrastructure assets and accumulated depreciation. The City has reported its statement of cash flows on the indirect method, rather than directly reporting cash inflows and outflows from operating activities. Finally, the long-term debt footnote disclosure does not present the amount due within the next fiscal year; the future debt service requirement does not distinguish between principal and interest, nor does it present principal and interest in five-year increments. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements and full accrual information for the combining component unit statements. Further, accounting principles require separate fund-based reporting of its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. In addition, accounting principles require the general fixed asset data to include general infrastructure assets, and the accumulation of depreciation of government-wide financial statements for the City's governmental activities, business-type activities, and discretely presented component units (including the full accrual combining component unit data); the amounts of general infrastructure assets and general fixed assets accumulated depreciation are not reasonably determinable. Accounting principles require the cash flow statement to directly report cash inflows and outflows from operating activities.

In our opinion, the general purpose financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Hamtramck, Michigan as of June 30, 2005 or the changes in its financial position of its cash flows, where applicable, for the year then ended.

In accordance with *Government Auditing Standards*, we will issue a separate report subsequent to this report letter on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Mayor and City Council  
City of Hamtramck, Michigan

The accompanying general purpose financial statements also do not include a management's discussion and analysis (which would present an analysis of the financial performance for the year) or budgetary comparison schedules with original appropriations for the General Fund and each major Special Revenue Fund. The Governmental Accounting Standards Board has determined that these are necessary to supplement, although not required to be a part of, the financial statements.

*Plante & Moran, PLLC*

December 14, 2005

# City of Hamtramck, Michigan

	Governmental Fund Types			Proprietary Fund Type
	General Fund	Special Revenue Funds	Debt Service Funds	Enterprise
<b>Assets</b>				
Cash and investments (Note 2)	\$ 18,861	\$ 2,510,337	\$ 128,440	\$ 151,158
Receivables:				
Taxes	627,571	33,219	340,579	372,469
Customer	-	-	-	1,383,318
Other	245,959	-	-	-
Due from other governmental units	3,292,628	247,367	-	-
Due from other funds (Note 3)	717,239	905,640	81,476	1,166,339
Due from component unit	8,128	-	-	173,143
Prepaid expenditures and deposits	21,750	-	-	-
Capital assets (Note 4)	-	-	-	3,662,379
Amount available in Debt Service Funds	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-
<b>Total assets</b>	<b>\$ 4,932,136</b>	<b>\$ 3,696,563</b>	<b>\$ 550,495</b>	<b>\$ 6,908,806</b>
<b>Liabilities and Fund Equity (Deficit)</b>				
<b>Liabilities</b>				
Accounts payable	\$ 942,007	\$ 22,355	\$ -	\$ 530,930
Due to other governmental units	-	-	-	-
Due to other funds	1,576,097	965,895	3,000	14,594
Due to primary government	-	-	-	-
Accrued and other liabilities	505,713	7,943	-	7,244
Deferred revenue	2,247,059	97,266	-	-
Long-term debt (Note 5)	-	-	-	845,782
<b>Total liabilities</b>	<b>5,270,876</b>	<b>1,093,459</b>	<b>3,000</b>	<b>1,398,550</b>
<b>Fund Equity (Deficit)</b>				
Investment in general fixed assets	-	-	-	-
Retained earnings	-	-	-	5,510,256
Fund balances (deficit):				
Reserved for development agreement (Note 10)	-	-	-	-
Reserved for prepaid expenditures and deposits	21,750	-	-	-
Unreserved	(360,490)	2,603,104	547,495	-
<b>Total fund equity (deficit)</b>	<b>(338,740)</b>	<b>2,603,104</b>	<b>547,495</b>	<b>5,510,256</b>
<b>Total liabilities and fund equity (deficit)</b>	<b>\$ 4,932,136</b>	<b>\$ 3,696,563</b>	<b>\$ 550,495</b>	<b>\$ 6,908,806</b>



**Combined Balance Sheet - All Fund Types,  
Account Groups, and Component Units  
June 30, 2005**

Fiduciary Fund Type	Account Groups		Total Primary Government (Memorandum Only)	Component Units
Trust and Agency	General Fixed Assets	General Long-term Debt		
\$ 4,653,816	\$ -	\$ -	\$ 7,462,612	\$ (16,807)
-	-	-	1,373,838	-
-	-	-	1,383,318	-
-	-	-	245,959	272,342
-	-	-	3,539,995	-
148,063	-	-	3,018,757	-
-	-	-	181,271	-
-	-	-	21,750	-
-	12,192,261	-	15,854,640	-
-	-	547,495	547,495	-
-	-	12,582,145	12,582,145	-
<b>\$ 4,801,879</b>	<b>\$ 12,192,261</b>	<b>\$ 13,129,640</b>	<b>\$ 46,211,780</b>	<b>\$ 255,535</b>
\$ 22,440	\$ -	\$ -	\$ 1,517,732	\$ 381
252,708	-	-	252,708	36,124
459,171	-	-	3,018,757	-
-	-	-	-	181,271
64,867	-	-	585,767	14,223
-	-	-	2,344,325	272,342
-	-	13,129,640	13,975,422	-
799,186	-	13,129,640	21,694,711	504,341
-	12,192,261	-	12,192,261	-
-	-	-	5,510,256	-
4,002,693	-	-	4,002,693	-
-	-	-	21,750	-
-	-	-	2,790,109	(248,806)
4,002,693	12,192,261	-	24,517,069	(248,806)
<b>\$ 4,801,879</b>	<b>\$ 12,192,261</b>	<b>\$ 13,129,640</b>	<b>\$ 46,211,780</b>	<b>\$ 255,535</b>

# City of Hamtramck, Michigan

	Governmental Fund Types		
	General Fund	Special Revenue Funds	Debt Service Fund
<b>Revenue</b>			
Property taxes	\$ 6,240,985	\$ 369,982	\$ 2,850,323
Income taxes	2,364,315	-	-
Licenses and permits	445,041	-	-
Federal sources	-	239,660	-
State sources	4,134,370	1,474,821	-
Charges for services	148,469	165,681	-
Parking meters and permits	-	-	-
Fines and forfeitures	972,253	39,315	-
Interest	11,362	10,544	2,424
Other	633,942	12,291	-
Total revenue	14,950,737	2,312,294	2,852,747
<b>Expenditures</b>			
General government	2,714,679	67,235	-
Public safety	8,760,204	360,346	-
Public works	1,398,269	398,115	-
Health and welfare	209,849	88,113	-
Recreation and cultural	-	312,287	-
Economic development	-	2,500	-
Employee benefits, insurance, and other	1,989,782	-	-
Debt payments	-	-	185,410
Debt service	193,455	-	2,881,842
Total expenditures	15,266,238	1,228,596	3,067,252
<b>Excess of Revenue Over (Under) Expenditures</b>	(315,501)	1,083,698	(214,505)
<b>Other Financing Sources (Uses)</b>			
Proceeds from the issuance of long-term debt	-	-	-
Operating transfers in	-	224,815	185,410
Operating transfers out	(185,162)	(915,978)	-
Total other financing sources (uses)	(185,162)	(691,163)	185,410
<b>Changes in Fund Balances</b>	(500,663)	392,535	(29,095)
<b>Fund Balances (Deficit) - Beginning of year</b>	161,923	2,210,569	576,590
<b>Fund Balances (Deficit) - End of year</b>	<u>\$ (338,740)</u>	<u>\$ 2,603,104</u>	<u>\$ 547,495</u>

**Combined Statement of Revenue, Expenditures, and  
Changes in Fund Balances (Deficit) - All Governmental Fund Types,  
Expendable Trust Fund, and Component Units  
Year Ended June 30, 2005**

Fiduciary Fund Type			
Expendable			
Trust -	Total Primary		
Development	Government		
Agreement	(Memorandum	Component	
Escrow	Only)	Units	
\$ 188,186	\$ 9,649,476	\$ -	
16,568	2,380,883	-	
-	445,041	-	
1,364,032	1,603,692	-	
-	5,609,191	-	
-	314,150	-	
-	-	190,165	
-	1,011,568	5,912	
91,948	116,278	-	
-	646,233	499	
1,660,734	21,776,512	196,576	
-	2,781,914	-	
-	9,120,550	-	
-	1,796,384	-	
-	297,962	-	
-	312,287	-	
-	2,500	16,399	
2,767,528	4,757,310	959	
-	185,410	-	
-	3,075,297	-	
2,767,528	22,329,614	17,358	
(1,106,794)	(553,102)	179,218	
268,281	268,281	-	
931,670	1,341,895	-	
-	(1,101,140)	-	
1,199,951	509,036	-	
93,157	(44,066)	179,218	
3,909,536	6,858,618	(428,024)	
<b>\$ 4,002,693</b>	<b>\$ 6,814,552</b>	<b>\$ (248,806)</b>	

# City of Hamtramck, Michigan

General Fund (Note 7)			
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
Property taxes	\$ 6,453,376	\$ 6,240,985	\$ (212,391)
Income taxes	2,628,485	2,364,315	(264,170)
Licenses and permits	438,719	445,041	6,322
Federal sources	-	-	-
State sources	4,155,820	4,134,370	(21,450)
Charges for services	161,606	148,469	(13,137)
Parking meters and permits	100,000	-	(100,000)
Fines and forfeitures	985,000	972,253	(12,747)
Interest	6,600	11,362	4,762
Other	299,644	633,942	334,298
Operating transfers from other funds	-	-	-
Total revenue	15,229,250	14,950,737	(278,513)
<b>Expenditures</b>			
General government	2,546,683	2,714,679	(167,996)
Public safety	8,844,747	8,760,204	84,543
Public works	1,404,926	1,398,269	6,657
Health and welfare	281,551	209,849	71,702
Recreation and cultural	-	-	-
Employee benefits, insurance, and other	1,906,846	1,989,782	(82,936)
Debt service	193,455	193,455	-
Operating transfers to other funds	-	185,162	(185,162)
Total expenditures	15,178,208	15,451,400	(273,192)
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>\$ 51,042</b>	<b>\$ (500,663)</b>	<b>\$ (551,705)</b>

**Combined Statement of Revenue and  
Expenditures - Budget and Actual  
General and Special Revenue Fund Types  
Year Ended June 30, 2005**

Special Revenue Funds (Note 7)		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 385,000	\$ 369,982	\$ (15,018)
-	-	-
-	-	-
777,226	239,660	(537,566)
1,310,000	1,474,821	164,821
165,200	165,681	481
-	-	-
69,100	39,315	(29,785)
8,380	10,544	2,164
3,200	12,291	9,091
249,108	224,815	(24,293)
2,967,214	2,537,109	(430,105)
120,000	67,235	52,765
244,800	360,346	(115,546)
939,700	398,115	541,585
545,932	88,113	457,819
290,900	314,787	(23,887)
-	-	-
-	-	-
1,113,600	915,978	197,622
3,254,932	2,144,574	1,110,358
<b>\$ (287,718)</b>	<b>\$ 392,535</b>	<b>\$ 680,253</b>

# City of Hamtramck, Michigan

## Statement of Revenue, Expenses, and Changes in Retained Earnings Proprietary Fund Type - Enterprise Fund - Water and Sewer Year Ended June 30, 2005

<b>Operating Revenue - Charges for services</b>	\$ 4,483,436
<b>Operating Expenses</b>	
Cost of water	612,997
Cost of sewage disposal	2,253,256
System operation and maintenance:	
Personnel costs	269,774
Infrastructure repair and maintenance	391,501
Other	23,387
Depreciation	<u>184,864</u>
Total operating expenses	<u>3,735,779</u>
<b>Operating Income</b>	747,657
<b>Nonoperating Revenue (Expense)</b>	
Interest income	3,041
Interest expense	<u>(49,384)</u>
Total nonoperating expense	<u>(46,343)</u>
<b>Income - Before operating transfers out and capital contributions</b>	701,314
<b>Operating Transfer Out</b>	(240,755)
<b>Capital Contributions</b>	<u>996,480</u>
<b>Change in Retained Earnings</b>	1,457,039
<b>Retained Earnings</b>	
Beginning of year	<u>4,053,217</u>
End of year	<u><u>\$ 5,510,256</u></u>

# City of Hamtramck, Michigan

## Statement of Cash Flows Proprietary Fund Type - Enterprise Fund - Water and Sewer Year Ended June 30, 2005

### Cash Flows from Operating Activities

Operating income	\$ 747,657
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	184,864
Changes in assets and liabilities:	
Receivables	552,137
Due from other funds	(429,265)
Accounts payable	(165,512)
Due to other funds	(5,643)
Accrued and other liabilities	709
Net cash provided by operating activities	884,947

### Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(46,016)
Transfer to other funds for construction of water and sewer lines	(240,755)
Payments on meter financing debt service	(701,737)
Net cash used in capital and related financing activities	(988,508)

**Cash Flows from Investing Activities** - Interest received on investments 3,041

**Net Decrease in Cash and Cash Equivalents** (100,520)

**Cash and Cash Equivalents** - Beginning of year 251,678

**Cash and Cash Equivalents** - End of year \$ 151,158

**Noncash Activities** - The Development Agreement Escrow constructed \$996,480 of water and sewer lines and donated them to the Water and Sewer Fund during the year.

# City of Hamtramck, Michigan

## Combining Balance Sheet Component Units June 30, 2005

	Downtown Development Authority	31st District Court	Total
<b>Assets</b>			
Cash and investments	\$ (79,536)	\$ 62,729	\$ (16,807)
Receivables - Other	272,342	-	272,342
Total assets	<u>\$ 192,806</u>	<u>\$ 62,729</u>	<u>\$ 255,535</u>
<b>Liabilities and Fund Balances (Deficit)</b>			
<b>Liabilities</b>			
Accounts payable	\$ 381	\$ -	\$ 381
Accrued and other liabilities	-	14,223	14,223
Due to other governmental units	-	36,124	36,124
Due to primary government	179,799	1,472	181,271
Deferred revenue	272,342	-	272,342
Total liabilities	452,522	51,819	504,341
<b>Fund Balances (Deficit) - Unreserved -</b> Undesignated	<u>(259,716)</u>	<u>10,910</u>	<u>(248,806)</u>
Total liabilities and fund balances (deficit)	<u>\$ 192,806</u>	<u>\$ 62,729</u>	<u>\$ 255,535</u>



# City of Hamtramck, Michigan

## Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) - Component Units Year Ended June 30, 2005

	Downtown Development Authority	31st District Court	Total
<b>Revenue</b>			
Fines and fees collected	\$ -	\$ 5,912	\$ 5,912
Parking meters	190,165	-	190,165
Other	499	-	499
Total revenue	190,664	5,912	196,576
<b>Expenditures</b>			
Community and economic development	16,399	-	16,399
Other	-	959	959
Total expenditures	16,399	959	17,358
<b>Excess of Revenue Over Expenditures</b>	174,265	4,953	179,218
<b>Fund Balances (Deficit) - July 1, 2004</b>	(433,981)	5,957	(428,024)
<b>Fund Balances (Deficit) - June 30, 2005</b>	<u>\$ (259,716)</u>	<u>\$ 10,910</u>	<u>\$ (248,806)</u>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Hamtramck, Michigan (the "City") do not conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The City has not modified its financial reporting to adopt Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As such, the general purpose financial statements exclude the management's discussion and analysis, government-wide statement of net assets, and government-wide statement of activities. Furthermore, the City has not followed the formatting of separately reporting its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. The City has continued to report information by fund type and account group; the General Fixed Assets Account Group excludes general infrastructure assets and accumulated depreciation on general fixed assets.

The following is a summary of the significant accounting policies:

#### **Reporting Entity**

The City of Hamtramck, Michigan, is governed by an elected mayor and five-member Council. However, as a result of the City's significant financial problems, the State of Michigan appointed an emergency financial manager to govern the City from November 2000 through November 2004. After this date, the mayor and Council regained control of all operations. The emergency financial manager still oversees all labor related issues. As required by accounting principles generally accepted in the United States of America, these general purpose financial statements present the City of Hamtramck, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The following component units are reported within the component units column in the combined general purpose financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the mayor and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

### **Note I - Summary of Significant Accounting Policies (Continued)**

- b. The District Court records the collection of amounts that are subsequently returned to or paid to third parties. The fund also maintains certain fees collected on behalf of the City's General Fund to pay jury fees and certain operating expenditures. The District Court is also collecting a fee to provide funds for the renovation and/or construction of a new court building. The District Court is governed by separately elected judges. However, it is included here because it is fiscally dependent on the City.

#### **Fund Accounting**

The accounts of the City are organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined general purpose financial statements in this report, into generic fund types in three broad fund categories as follows:

#### **Governmental Funds**

**General Fund** - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

**Special Revenue Funds** - The Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

**Debt Service Funds** - The Debt Service Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund.

#### **Proprietary Fund**

**Enterprise Fund** - The Enterprise Fund is used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

#### **Fiduciary Funds**

**Expendable Trust Fund** - The Expendable Trust Fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable Trust Funds account for assets where both the principal and interest may be spent.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Trust and Agency Funds** - Trust and Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency Funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

#### **Basis of Accounting**

The accrual basis of accounting is used by the proprietary fund. All governmental funds, Expendable Trust Funds, Agency Funds, and component units utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- (a) Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31, and the related property taxes become a lien at that time. These taxes are billed on July 1 of the following year, and are due on August 31, with the final collection date of February 28 before they are added to the county tax rolls.

- (b) Noncurrent receivables are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year end.
- (c) Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.
- (d) Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- (e) Normally, expenditures are not divided between years by the recording of prepaid expenses. The prepaid expenditures reported on the balance sheet represent advance payments for next year's services.
- (f) The noncurrent portion of accumulated sick and vacation pay liabilities is reflected in the General Long-term Debt Account Group.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Fixed Assets and Long-term Liabilities** - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Fixed assets and long-term liabilities relating to the proprietary fund are accounted for in that fund. Depreciation on such fixed assets is charged as an expense against the operations of the proprietary fund on a straight-line basis.

**Cash and Cash Equivalents** - Cash and cash equivalents include amounts in demand deposits as well as short-term investments with original maturities of three months or less from the date of acquisition.

**Investments** - Investments are reported at fair value, based on quoted market prices.

**Property Taxes** - All trade and property tax receivables are shown net of allowance for uncollectible amounts. Properties are assessed as of December 1 of each year. The related property taxes are levied on each July 1 on the taxable valuation of the property as of the preceding December 1. Taxes are due by September 1 with the final collection date of February 28. Taxes are considered delinquent on March 1, at which time penalties and interest are assessed.

The City tax mileage rate is 37.0545, which is comprised of 17.6499 general operating, .5000 police and fire protection, 2.6473 refuse collection, which is recorded in the General and Development Agreement Escrow Funds, .3750 debt service, 1.8823 library, and 14.0000 pension judgment. The General Fund, Development Escrow Fund, Court Judgment #2 Fund, Library Fund, and Pension Judgment Fund received \$3,935,580, \$188,186, \$73,445, \$369,982, and \$2,776,878, respectively, in property tax revenue in the current year.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Memorandum-only Totals** - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to the financial statements.

### **Note 2 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2005

### Note 2 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$8,196,355 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

Type of Investment	Carrying Value	How Held
Money market funds	\$ 527,694	Counterparty's trust department

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Sweep account	\$ 3,143,682	3 months

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2005

### Note 2 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Money market funds	\$ 527,694	AAA	S&P

**Concentration of Credit Risk** - Through its investment policy, the City places a 5 percent limit on the amount the City may invest in any one issuer.

### Note 3 - Interfund Receivables

The following are the interfund receivables at June 30, 2005:

Fund Due To	Fund Due From	Amount
General Fund	911 Emergency Fund	\$ 309
	Library Fund	61,628
	Community Development Block Grants Fund	100,510
	Major Street	227,669
	Local Street	27,313
	Misc. State Grants Fund	649
	T/A Public Act #495	15,102
	Tax Collection Fund	86,958
	Drug Law Enforcement	68,232
	Property Revitalization	125,869
	Pension Judgment	3,000
Total General Fund		717,239



# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2005

### Note 3 - Interfund Receivables (Continued)

Fund Due To	Fund Due From	Amount
Special Revenue Funds:		
Major Street	General Fund	\$ 162,677
Major Street	Water and Sewer Fund	16,244
Local Street	Major Street Fund	224,815
Local Street	General Fund	6,840
Drug Law Enforcement	General Fund	58,287
Drug Law Enforcement	Misc. State Grants Fund	2,144
Library	General Fund	28,084
Library	Tax Collection Fund	45,079
Community Development Block Grants Fund	General Fund	117,563
Community Development Block Grants Fund	Development Agreement Escrow	134,135
Community Development Block Grants Fund	Misc. State Grants Fund	147
Property Revitalization	General Fund	80,475
U.S. Justice Department Grants	General Fund	5,754
Building and Improvement	General Fund	<u>23,396</u>
Total Special Revenue Funds		905,640
Debt Service Funds:		
Court Judgment #2	General Fund	15,611
Court Judgment #2	Tax Collection Fund	437
Pension Judgment	Tax Collection Fund	<u>65,428</u>
Total Debt Service Funds		81,476
Enterprise Fund:		
Water and Sewer Enterprise Fund	General Fund	1,063,180
Water and Sewer Enterprise Fund	Tax Collection Fund	<u>103,159</u>
Total Water and Sewer Enterprise Fund		1,166,339
Fiduciary funds:		
Development Agreement Escrow	911 Emergency	147
Development Agreement Escrow	General Fund	12,580
Development Agreement Escrow	Tax Collection Fund	1,606
Development Agreement Escrow	Community Development Block Grants Fund	126,463
Development Agreement Escrow	T/A Public Act #495	542
T/A Public Act #495	Development Agreement Escrow	<u>6,725</u>
Total Fiduciary funds		<u>148,063</u>
Total interfund receivables		<u>\$ 3,018,757</u>

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Land	\$ 808,656	\$ -	\$ -	\$ 808,656
Buildings and improvements	7,848,140	-	-	7,848,140
Equipment	3,136,774	398,691	-	3,535,465
Total	<u>\$ 11,793,570</u>	<u>\$ 398,691</u>	<u>\$ -</u>	<u>\$ 12,192,261</u>

The Water and Sewer Fund has only recorded assets acquired after June 30, 1986. A summary of Water and Sewer Fund fixed assets at June 30, 2005 is as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Land, building, and improvements	\$ 1,582,310	\$ -	\$ -	\$ 1,582,310
Construction in progress	-	996,480	-	996,480
Machinery and equipment	2,080,526	46,016	-	2,126,542
Total	3,662,836	1,042,496	-	4,705,332
Accumulated depreciation	(858,089)	(184,864)	-	(1,042,953)
Net	<u>\$ 2,804,747</u>	<u>\$ 857,632</u>	<u>\$ -</u>	<u>\$ 3,662,379</u>

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Long-term Debt

#### Outstanding Debt

The following is a summary of the debt outstanding of the City at June 30, 2005:

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2005</u>
<b>General Obligation Bonds</b>				
2004 Series A refunding bonds, issued in the amount of \$2,865,000. Principal payments are due annually on May 1, with interest ranging from 2.0 percent to 3.75 percent	\$ 2,865,000	\$ -	\$ (100,000)	\$ 2,765,000
1992 Series B refunding bonds, issued in the amount of \$2,370,000. Principal payments are due annually on May 1, with interest ranging from 6.5 percent to 6.55 percent	290,000	-	(155,000)	135,000
<b>Fiscal Stabilization Bonds</b>				
2002 fiscal stabilization bonds, issued in the amount of \$2,500,000. Principal payments are due annually on November 1, with interest ranging from 3.85 percent to 5.15 percent	2,255,000	-	(80,000)	2,175,000
<b>Installment Purchase Agreement Contracts</b>				
June 1999 in the amount of \$318,430. Principal payments are due monthly, with interest at 4.41 percent	321	-	(321)	-

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Long-term Debt (Continued)

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2005</u>
<b>Other Obligations</b>				
Brownfield Cleanup Revolving Loan, issued in the amount of \$326,715. Principal payments are due annually on March 1 beginning in 2006, with 0 percent interest	\$ 324,400	\$ 2,315	\$ -	\$ 326,715
Grand Haven/Dyar Section 108 loan, at the authorized amount of \$750,000. Principal payments are due annually August 1, with interest ranging from 3.8 percent to 5.0 percent	484,019	265,981	-	750,000
Joseph Campau Streetscape Project Section 108 loan, at an authorized amount of \$758,000. Principal payments are due annually August 1, with interest ranging from 3.9 percent to 5.1 percent	758,000	-	-	758,000
<b>Accumulated Benefits, Insurance, and Other</b>				
Lawsuits and asserted claims (see Note 12)	6,045,000	-	(2,569,813)	3,475,187
Accumulated sick, vacation, and other days	1,745,529	-	(160,641)	1,584,888
Estimated insurance claims (see Note 6):				
Workers' compensation	1,053,869	-	(19,019)	1,034,850
General liability	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>125,000</u>
Total General Long-term Debt Account Group	15,946,138	268,296	(3,084,794)	13,129,640

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Long-term Debt (Continued)

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2005</u>
<b>Enterprise Fund Debt</b>				
Restructure of past due City of Detroit water and sewer charges in January 2002 into an installment note in the amount of \$3,472,346. Principal payments are due monthly, with no interest due	\$ 472,346	\$ -	\$ (472,346)	\$ -
Water meter equipment and software purchased in February 2002 in the amount of \$1,348,290. Principal payments are due monthly beginning in July 2002, with interest at 5.24 percent	1,012,459	-	(181,626)	830,833
Accumulated sick, vacation, and other days	<u>13,330</u>	<u>-</u>	<u>1,619</u>	<u>14,949</u>
Total Enterprise Fund Debt	<u>1,498,135</u>	<u>-</u>	<u>(652,353)</u>	<u>845,782</u>
Total long-term debt	<u>\$ 17,444,273</u>	<u>\$ 268,296</u>	<u>\$ (3,737,147)</u>	<u>\$ 13,975,422</u>

**Debt Service Requirements** - The annual requirements to service all debt outstanding as of June 30, 2005 (excluding lawsuits and asserted claims, accumulated employee benefits, and estimated insurance claims), including both principal and interest, are as follows:

<u>Years Ending June 30</u>	<u>General Obligations</u>	<u>Enterprise Fund</u>	<u>Total</u>
2006	\$ 3,813,678	\$ 231,007	\$ 4,044,685
2007	1,320,069	231,006	1,551,075
2008	829,621	231,005	1,060,626
2009	834,371	231,454	1,065,825
2010	837,113	-	837,113
2011 - 2015	2,703,213	-	2,703,213
2016 - 2020	996,984	-	996,984
2021 - 2025	<u>200,021</u>	<u>-</u>	<u>200,021</u>
Total	<u>\$ 11,535,070</u>	<u>\$ 924,472</u>	<u>\$ 12,459,542</u>

**Interest** - Total interest incurred for the City for the year approximated \$404,000.

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for fleet, dishonesty, boiler, and medical benefits. The City is partially self-insured for general liability claims and uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. In addition, the City estimates the general liability claims that are in excess of its aggregate limits. These estimates are recorded in the General Long-term Debt Account Group. Changes in the estimated liability for the past fiscal year were as follows:

	Workers' Compensation	General Liability
Estimated liability - June 30, 2003	\$ 646,024	\$ 125,000
Estimated claims incurred, including changes in estimates	635,364	9,149
Claim payments	<u>(189,577)</u>	<u>(9,149)</u>
Estimated liability - June 30, 2004	1,091,811	125,000
Estimated claims incurred, including changes in estimates	188,151	16,254
Claim payments	<u>(245,112)</u>	<u>(16,254)</u>
Estimated liability - June 30, 2005	<u><u>\$ 1,034,850</u></u>	<u><u>\$ 125,000</u></u>

### Note 7 - Budget Information

The annual budget was prepared by the emergency financial manager. As of November 1, any subsequent amendments were made by the Mayor and Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2005

### Note 7 - Budget Information (Continued)

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exception:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”

The budget statement (combined statement of revenue and expenditures - budget and actual - General and Special Revenue Fund types) is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement to the operating statement (combined statement of revenue, expenditures, and changes in fund balances (deficit) - all governmental fund types, expendable trust fund, and component units):

	General Fund		Special Revenue Funds	
	Total		Total	
	Total Revenue	Expenditures	Total Revenue	Expenditures
Amounts per operating statement	\$ 14,950,737	\$ 15,266,238	\$ 2,312,294	\$ 1,228,596
Operating transfers budgeted as revenue and expenditures	-	185,162	224,815	915,978
Amounts per budget statement	<u>\$ 14,950,737</u>	<u>\$ 15,451,400</u>	<u>\$ 2,537,109</u>	<u>\$ 2,144,574</u>

The General Fund budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget is included in the additional information. This comparison includes expenditure budget overruns. The Special Revenue Funds’ budget has been adopted on a total revenue/total expenditure basis. A comparison of the actual results of operations to the Special Revenue Funds’ budget is available at the clerk’s office for inspection.

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2005

### Note 7 - Budget Information (Continued)

Expenditure budget overruns were as follows:

	Budget	Actual
General Fund:		
Legislative	\$ 15,815	\$ 24,853
District court	454,488	464,844
Legal	409,000	554,999
Controller	289,710	292,171
Treasurer	147,495	148,902
Building and grounds	374,620	380,950
Civil service	219,957	243,661
Community/Economic development	48,358	65,537
Highways and streets	436,250	438,791
Sanitation	845,000	845,377
Employee benefits	1,848,721	1,939,321
Special Revenue Funds:		
911 Emergency	100,000	107,711
Drug law enforcement - Public safety	144,800	252,635
Library - Recreation and cultural	284,400	312,287
U.S. Justice Department grants - Health and welfare	17,334	46,346
Act 302 Miscellaneous Grants - Health and welfare	6,000	7,790

The General Fund has a fund deficit at June 30, 2005 of \$338,740. Also, the U.S. Justice Department Grants Fund and the Downtown Development Authority (a discretely presented component unit) had fund deficits at June 30, 2005 of \$376 and \$259,716, respectively. Both were a result of timing differences between grant-related expenditures and reimbursements from the granting agency. The fund deficits will be eliminated when the grant reimbursements are received in the upcoming fiscal year.



### Note 8 - Postemployment Benefits

The City provides health care, dental, and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 171 retirees are eligible for dental and health care benefits and 80 retirees are eligible for life insurance. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for the postemployment benefits are recognized as the insurance premiums become due; during the year, this amounted to \$894,762.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### Note 9 - Pension Plan

**Plan Description** - The City participates in the Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all full-time employees of the City. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent.

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2005

### Note 9 - Pension Plan (Continued)

**Annual Pension Cost** - For the year ended June 30, 2005, the City's annual pension cost of \$3,024,400 for the plan was equal to the City's required and actual contribution. All contributions were paid prior to year end. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.50 percent to 12.9 percent per year, and (c) the assumption that benefits will increase 2.5 percent per year for those retiring before March 1, 1977 and April 1, 1995. Both (a) and (b) include an inflation component of 4.50 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 30 years.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2005	2004	2003
Annual pension cost (APC)	\$ 3,024,400	\$ 3,442,317	\$ 3,110,653
Percentage of APC contributed	100%	100%	100%
Net pension obligation	unknown	unknown	unknown
Actuarial Valuation as of December 31			
	2004	2003	2002
Actuarial value of assets	\$ 56,818,386	\$ 55,789,889	\$ 54,601,050
Actuarial Accrued Liability (AAL) (entry age normal)	<u>86,815,817</u>	<u>85,859,065</u>	<u>82,335,636</u>
Unfunded AAL (UAAL)	<u>\$ 29,997,431</u>	<u>\$ 30,069,176</u>	<u>\$ 27,734,586</u>
Funded ratio	65%	65%	66%
Covered payroll	\$ 6,230,480	\$ 6,683,736	\$ 6,324,501
UAAL as a percentage of covered payroll	481%	450%	439%

### **Note 9 - Pension Plan (Continued)**

**Policemen and Firemen Plan** - Prior to 1994, the City operated a self-administered pension system for its police and fire personnel. During the 1980s and early 1990s, the City did not fully fund this pension system in accordance with actuarially required contributions. In June 1994, the Wayne County Circuit Court (the "Court") ordered the City's pension plan to be transferred to the Michigan Municipal Employees' Retirement System. The Court also ordered the City to fund the total unfunded accrued liability of \$37,886,752 over a 20-year period in annual installments. The City's annual pension contribution includes a provision to fund this unfunded liability. As a result of the underpayments during the 1980s and early 1990s, the City has a net pension obligation. However, this amount has not been calculated by either the actuary or the City.

### **Note 10 - The Wyandotte Project (Michigan R-3 I)**

A class action lawsuit was brought against the City by minority residents who lived in the R-3I Urban Renewal Area (Wyandotte Project) who allege discrimination in the City of Hamtramck and U.S. Department of Housing (HUD) Urban Development Program.

The Court determined that there was merit to the complaint, and the decision ordered the City to set up a Tax Increment Financing Authority (TIFA) district in the R-3I area. All revenue collected in this area, including property taxes, income tax, permit, interest, and property sales, must be placed in a separate fund and used for the construction of housing for the families displaced by the development project.

The City is currently in the process of satisfying the judgment. The Development Agreement Escrow Fund was created to accumulate the earmarked revenue. The fund had reserved fund balance of \$4,002,693 at June 30, 2005.

During the current year, the City completed the infrastructure for the project including putting in water and sewer lines and construction of streets and sidewalks. The total cost incurred during the year ended totaled \$2,767,528. All expenditures incurred were paid from Community Development Block grant revenue, Section 108 loans, Brownfield Economic Initiative program loans and grants, Wayne County Brownfield Redevelopment loans and contributions from the Major, Local, and Water and Sewer funds. Cumulative costs for this project through June 30, 2005 total approximately \$4,740,000. The remaining fund balance will be used for actual housing construction to begin in fiscal year 2006.

The City is uncertain if the funds collected to date and the additional commitments noted above will be sufficient to cover the entire cost of the project.

### **Note 11 - Central Industrial Park Project (CIPP) Interlocal Agreement**

The CIPP Interlocal Agreement is an agreement between the City, Wayne County, and the City of Detroit regarding the distribution of property tax and income tax revenues generated from the GM Poletown property. Under the agreement, the City is guaranteed to receive 50 percent of the first \$3.4 million collected and the City of Detroit will receive the other 50 percent. Any amounts collected over \$3.4 million will be distributed to each city based on the allocation of the qualifying project costs. If excess collections are received after project costs are paid, the balance will be distributed one third to Hamtramck and two thirds to Detroit. Collections for the year ended June 30, 2005 totaled approximately \$1,737,000. Based on estimated provided by the City of Detroit, most project costs have been completed at June 30, 2005. The City's annual collections under this agreement are estimated to be \$4,400,000 for the 2006 through 2014 fiscal years.

### **Note 12 - Lawsuit Settlement**

During the fiscal year ended June 30, 2003, the Court has issued a judgment against the City concerning the calculation of pension benefits owed to employees. The amount of damages equals \$8.25 million including interest. The balance as of June 30, 2005 is \$3.48 million. The judgment allows the City to place the above award on the tax rolls beginning July 1, 2004. The total mills required to satisfy the judgment are approximately 49. Approximately 7 mills will be levied on each billing (summer and winter) over the next one and a half years. The City has recorded a liability for this loss in the General Long-term Debt Account Group.

### **Note 13 - Environmental Commitment**

In a prior year, the City and additional defendants entered into a consent judgment with the State of Michigan and Michigan Department of Environmental Quality (MDEQ) to clean up a piece of property. The agreement called for the property to be cleaned up and an amount to be placed in a trust for future operating and maintenance costs. The City completed the cleanup during 2003 and placed approximately \$442,000 in a trust for future operating and maintenance costs related to the property. The balance in the trust at June 30, 2005, totaled approximately \$382,000.

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2005

### Note 14 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall - July 1, 2004		\$(236,668)
Current year building permit revenue		213,609
Related expenses:		
Direct costs	\$209,511	
Estimated indirect costs	<u>83,804</u>	
Total construction code expenses		<u>293,315</u>
Cumulative shortfall - June 30, 2005		<u><u>\$(316,374)</u></u>

### Note 15 - Contributed Capital

During 2004, the Development Agreement Escrow (the "Escrow") received a grant for construction of water and sewer lines. These lines were contributed to the City's Enterprise Fund by the Escrow. The Enterprise Fund's sole source of contributed capital is the current year contribution from the Escrow that totaled \$996,480 at June 30, 2005.

### Note 16 - Contingent Receivable

During the current year, Wayne County unilaterally changed their method for calculating the annual payment in lieu of taxes (PILOT) due to the City. Based on the calculation in the agreement signed many years ago, the City believes the current year payment should be approximately \$1,300,000. Wayne County paid the City only \$500,000 during the year ended June 30, 2005. The City initiated a lawsuit against Wayne County during the current year that is currently in the discovery stage. The City has recorded the additional \$800,000 as a receivable in the General Fund at June 30, 2005. As required under governmental auditing standards, the City has also recorded deferred revenue of \$800,000 in the General Fund given the timing of the collection.

## **Additional Information**

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To the Honorable Mayor and City Council  
City of Hamtramck, Michigan

We have audited the general purpose financial statements of the City of Hamtramck, Michigan for the year ended June 30, 2005. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the City of Hamtramck, Michigan. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Plante & Moran, PLLC*

December 14, 2005

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## **General Fund**

---

The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are funded by revenues from state-shared revenues, general property taxes, fees, and other sources. The schedules comparing revenue and expenditures - budget to actual compare the activity budgets (the level in which expenditures may not legally exceed appropriations) to actual revenues and expenditures.



# City of Hamtramck, Michigan

## General Fund - Schedule of Revenue, Expenditures, and Changes in Fund Balance by Activity Budget and Actual Year Ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
Property taxes:			
Property taxes	\$ 4,175,286	\$ 3,935,580	\$ (239,706)
GM revenue	1,703,376	1,737,248	33,872
Payments in lieu of taxes	574,714	568,157	(6,557)
Total property taxes	6,453,376	6,240,985	(212,391)
Income taxes	2,628,485	2,364,315	(264,170)
Licenses and permits:			
Business	257,909	231,432	(26,477)
Nonbusiness	180,810	213,609	32,799
Total licenses and permits	438,719	445,041	6,322
State sources	4,155,820	4,134,370	(21,450)
Charges for services	161,606	148,469	(13,137)
Parking meters and permits	100,000	-	(100,000)
Fines and forfeitures	985,000	972,253	(12,747)
Interest	6,600	11,362	4,762
Other	299,644	633,942	334,298
Total revenue	15,229,250	14,950,737	(278,513)

# City of Hamtramck, Michigan

## General Fund - Schedule of Revenue, Expenditures, and Changes in Fund Balance by Activity Budget and Actual (Continued) Year Ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Expenditures</b>			
General government:			
Legislative	\$ 15,815	\$ 24,853	\$ (9,038)
District Court	454,488	464,844	(10,356)
Mayor's office	35,566	34,722	844
Emergency financial manager	77,907	50,812	27,095
Elections	57,400	45,067	12,333
Assessor	59,558	55,151	4,407
Legal	409,000	554,999	(145,999)
Clerk	125,339	125,100	239
Controller	289,710	292,171	(2,461)
Treasurer	147,495	148,902	(1,407)
Building and grounds	374,620	380,950	(6,330)
Income tax	231,470	227,910	3,560
Civil service	219,957	243,661	(23,704)
Community/Economic development	48,358	65,537	(17,179)
Total general government	2,546,683	2,714,679	(167,996)
Public safety:			
Police	5,050,839	4,996,196	54,643
Fire	3,667,731	3,639,461	28,270
Auto theft grant	126,177	124,547	1,630
Total public safety	8,844,747	8,760,204	84,543
Public works:			
DPW administration	123,676	114,101	9,575
Highways and streets	436,250	438,791	(2,541)
Sanitation	845,000	845,377	(377)
Total public works	1,404,926	1,398,269	6,657

# City of Hamtramck, Michigan

## General Fund - Schedule of Revenue, Expenditures, and Changes in Fund Balance by Activity Budget and Actual (Continued) Year Ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Expenditures (Continued):</b>			
Health and welfare:			
Housing code enforcement	\$ 274,251	\$ 209,512	\$ 64,739
Equipment rental	300	298	2
Zoning Commission	7,000	39	6,961
Total health and welfare	281,551	209,849	71,702
Employee benefits and other:			
Employee benefits	1,848,721	1,939,321	(90,600)
Other	58,125	50,461	7,664
Total employee benefits and other	1,906,846	1,989,782	(82,936)
Debt service	193,455	193,455	-
Operating transfer out	-	185,162	185,162
Total expenditures	15,178,208	15,451,400	273,192
<b>Change in Fund Balance</b>	<b>\$ 51,042</b>	<b>(500,663)</b>	<b>\$ (551,705)</b>
<b>Fund Balance - Beginning of year</b>		<b>161,923</b>	
<b>Fund Deficit - End of year</b>		<b>\$ (338,740)</b>	

# **Special Revenue Funds**

---

Special Revenue Funds account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The City of Hamtramck has 10 Special Revenue Funds that are accounted for separately. A description of the Special Revenue Funds maintained by the City is as follows:

## **Major Streets Fund**

This fund records the construction, maintenance, and repairs of all major streets. Revenues received include state-shared gas and weight taxes, local contributions, and bonding. This fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

## **Local Streets Fund**

This fund records the construction, maintenance, and repairs of all local streets. Financing is provided by state-shared gas and weight taxes, local contributions, bonding, etc. This fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

## **Library Fund**

This fund records the operating activities of the City's public library. Activities are funded by revenues from property taxes, state aid, and other fines and fees. Expenditures consist primarily of wages.

## **U.S. Justice Department Grants Fund**

This fund records amounts received from the U.S. Department of Justice for the COPS More Award and Local Law Enforcement Block Grants. Funds are expended on such programs as hiring additional law enforcement officers and other crime prevention tools.

## **Community Development Block Grant Fund**

This fund records pass-through funding received from the U.S. Department of Housing and Urban Development (HUD) for Community Development Block Grants (CDBG). Funds are expended on such programs as housing rehabilitation, social services agencies, and restorations of historical sites.

## **911 Emergency Fund**

An Emergency 911 utility surcharge is imposed on all telephone customers in Wayne County. Money collected is distributed to local communities. Expenditure of these funds is restricted to qualifying expenses as defined by the State of Michigan. This fund was created to account for the receipt and expenditure of these Emergency 911 Utility Tax funds.

# **Special Revenue Funds (Continued)**

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## **Drug Law Enforcement Fund**

This fund records monies received from the Federal Drug Enforcement Agency for law enforcement purposes and for state funds related to drug enforcement purposes. These monies are to be used to supplement existing drug enforcement funds in the law enforcement field.

## **Miscellaneous State Grants Fund**

This fund records pass-through funding received from the State of Michigan Department of Justice Training Fund. Funds are expended on training programs for law enforcement officers.

## **Building and Improvement Fund**

This fund records the collection of fees levied on civil infractions and misdemeanors tickets. The purpose of the levy is to provide funds for renovation, expanding, and/or erecting and building new facilities.

## **Property Revitalization Fund**

This fund records the proceeds from the Brownfield Revitalization loan. The proceeds from this loan are to be used for property cleanup.

# City of Hamtramck, Michigan

	Major Streets	Local Streets	Library	U.S. Justice Department Grants	Community Development Block Grant
<b>Assets</b>					
Cash and investments	\$ 1,201,633	\$ 116,030	\$ 297,032	\$ 8,879	\$ -
Receivables:					
Taxes	-	-	33,219	-	-
Due from other governmental units	202,834	44,532	-	1	-
Due from other funds	178,921	231,655	73,163	5,754	251,845
Total assets	<u>\$ 1,583,388</u>	<u>\$ 392,217</u>	<u>\$ 403,414</u>	<u>\$ 14,634</u>	<u>\$ 251,845</u>
<b>Liabilities and Fund Balances (Deficit)</b>					
<b>Liabilities</b>					
Accounts payable	\$ 1,569	\$ 3,144	\$ 5,610	\$ -	\$ -
Due to other funds	452,484	27,313	61,628	-	226,973
Accrued liabilities	-	-	7,943	-	-
Deferred revenue	57,385	-	-	15,009	24,872
Total liabilities	511,438	30,457	75,181	15,009	251,845
<b>Fund Balances (Deficit) - Unreserved</b>	<u>1,071,950</u>	<u>361,760</u>	<u>328,233</u>	<u>(375)</u>	<u>-</u>
Total liabilities and fund balances (deficit)	<u>\$ 1,583,388</u>	<u>\$ 392,217</u>	<u>\$ 403,414</u>	<u>\$ 14,634</u>	<u>\$ 251,845</u>

**Special Revenue Funds  
Combining Balance Sheet  
June 30, 2005**

911 Emergency	Drug Law Enforcement	Miscellaneous State Grants	Building and Improvement	Property Revitalization	Total
\$ 143,689	\$ 282,489	\$ 34,727	\$ 43,582	\$ 382,276	\$ 2,510,337
-	-	-	-	-	33,219
-	-	-	-	-	247,367
-	60,431	-	23,396	80,475	905,640
<u>\$ 143,689</u>	<u>\$ 342,920</u>	<u>\$ 34,727</u>	<u>\$ 66,978</u>	<u>\$ 462,751</u>	<u>\$ 3,696,563</u>
\$ 5,498	\$ 5,859	\$ 675	\$ -	\$ -	\$ 22,355
456	68,232	2,940	-	125,869	965,895
-	-	-	-	-	7,943
-	-	-	-	-	97,266
5,954	74,091	3,615	-	125,869	1,093,459
137,735	268,829	31,112	66,978	336,882	2,603,104
<u>\$ 143,689</u>	<u>\$ 342,920</u>	<u>\$ 34,727</u>	<u>\$ 66,978</u>	<u>\$ 462,751</u>	<u>\$ 3,696,563</u>

# City of Hamtramck, Michigan

	Major Streets	Local Streets	Library	U.S. Justice Department Grants	Community Development Block Grant
<b>Revenue</b>					
Property taxes	\$ -	\$ -	\$ 369,982	\$ -	\$ -
Federal grants	-	-	-	41,374	118,330
State grants and distributions	899,259	275,310	30,429	-	-
Fines and forfeitures	-	-	-	-	-
Charges for services	-	-	-	-	-
Interest	4,201	317	-	-	-
Other	-	-	12,291	-	-
Total revenue	903,460	275,627	412,702	41,374	118,330
<b>Expenditures</b>					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	282,403	115,712	-	-	-
Health and welfare	-	-	-	46,346	33,977
Recreation and cultural	-	-	312,287	-	-
Economic development	-	-	-	-	-
Total expenditures	282,403	115,712	312,287	46,346	33,977
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>	621,057	159,915	100,415	(4,972)	84,353
<b>Other Financing Sources (Uses)</b>					
Operating transfers in	-	224,815	-	-	-
Operating transfer out	(522,404)	(393,326)	-	(248)	-
Total other financing uses	(522,404)	(168,511)	-	(248)	-
<b>Changes in Fund Balance</b>	98,653	(8,596)	100,415	(5,220)	84,353
<b>Fund Balances (Deficit) - July 1, 2004</b>	973,297	370,356	227,818	4,845	(84,353)
<b>Fund Balances (Deficit) - June 30, 2005</b>	<u>\$ 1,071,950</u>	<u>\$ 361,760</u>	<u>\$ 328,233</u>	<u>\$ (375)</u>	<u>\$ -</u>



**Special Revenue Funds**  
**Combining Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances (Deficit)**  
**Year Ended June 30, 2005**

911 Emergency	Drug Law Enforcement	Miscellaneous State Grants	Building and Improvement	Property Revitalization	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 369,982
-	79,956	-	-	-	239,660
-	269,823	-	-	-	1,474,821
-	-	-	39,315	-	39,315
165,681	-	-	-	-	165,681
482	560	152	-	4,832	10,544
-	-	-	-	-	12,291
166,163	350,339	152	39,315	4,832	2,312,294
-	-	-	67,235	-	67,235
107,711	252,635	-	-	-	360,346
-	-	-	-	-	398,115
-	-	7,790	-	-	88,113
-	-	-	-	-	312,287
-	-	-	-	2,500	2,500
107,711	252,635	7,790	67,235	2,500	1,228,596
58,452	97,704	(7,638)	(27,920)	2,332	1,083,698
-	-	-	-	-	224,815
-	-	-	-	-	(915,978)
-	-	-	-	-	(691,163)
58,452	97,704	(7,638)	(27,920)	2,332	392,535
79,283	171,125	38,750	94,898	334,550	2,210,569
<u>\$ 137,735</u>	<u>\$ 268,829</u>	<u>\$ 31,112</u>	<u>\$ 66,978</u>	<u>\$ 336,882</u>	<u>\$ 2,603,104</u>

## **Debt Service Funds**

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The Debt Service Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund. The City of Hamtramck has two Debt Service Funds that are accounted for separately. A description of the Debt Service Funds maintained by the City is as follows:

### **Court Judgment #2 Fund**

This fund records the proceeds of a court-ordered judgment levy and debt service payments for the 1992 Series B Refunding bonds.

### **Pension Judgment Fund**

This fund records the proceeds of a court-ordered judgment levy and to pay a past pension obligation. Distributions from this fund are made to a trustee who distributes the money to the individual pensioners.

# City of Hamtramck, Michigan

## Debt Service Funds Combining Balance Sheet June 30, 2005

	<u>Court Judgment #2</u>	<u>Pension Judgment</u>	<u>Total</u>
<b>Assets</b>			
Cash and investments	\$ 128,440	\$ -	\$ 128,440
Receivables:			
Taxes	5,619	334,960	340,579
Due from other funds	<u>16,048</u>	<u>65,428</u>	<u>81,476</u>
 Total assets	 <u><b>\$ 150,107</b></u>	 <u><b>\$ 400,388</b></u>	 <u><b>\$ 550,495</b></u>
 <b>Liabilities - Due to other funds</b>	 -	 3,000	 3,000
 <b>Fund Balances - Unreserved</b>	 <u>150,107</u>	 <u>397,388</u>	 <u>547,495</u>
 Total liabilities and fund balances	 <u><b>\$ 150,107</b></u>	 <u><b>\$ 400,388</b></u>	 <u><b>\$ 550,495</b></u>

# City of Hamtramck, Michigan

## Debt Service Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2005

	Court Judgment #2	Pension Judgment	Total
<b>Revenue</b>			
Property taxes	\$ 73,445	\$ 2,776,878	\$ 2,850,323
Interest	<u>2,424</u>	<u>-</u>	<u>2,424</u>
Total revenue	75,869	2,776,878	2,852,747
<b>Expenditures</b>			
Debt payments	-	185,410	185,410
Debt service	<u>173,918</u>	<u>2,707,924</u>	<u>2,881,842</u>
Total expenditures	<u>173,918</u>	<u>2,893,334</u>	<u>3,067,252</u>
<b>Excess of Expenditures Over Revenue</b>	(98,049)	(116,456)	(214,505)
<b>Other Financing Sources - Operating transfers in</b>	<u>-</u>	<u>185,410</u>	<u>185,410</u>
<b>Changes in Fund Balances</b>	(98,049)	68,954	(29,095)
<b>Fund Balances - July 1, 2004</b>	<u>248,156</u>	<u>328,434</u>	<u>576,590</u>
<b>Fund Balances - June 30, 2005</b>	<u><u>\$ 150,107</u></u>	<u><u>\$ 397,388</u></u>	<u><u>\$ 547,495</u></u>

# **Trust and Agency Funds**

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Trust Funds account for assets held by the City in a trustee capacity. Agency Funds account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds. A description of the Trust and Agency Funds maintained by the City is as follows:

## **Expendable Trust - Development Agreement Escrow Fund**

This fund records money held in trust resulting from a 1981 court judgment. The judgment required the City to create a Tax Increment Finance Authority (TIFA) District (R-31). All revenues including property taxes, income taxes, and sale and building permit proceeds must be held in this fund and used for the replacement and rehabilitation of homes in this district. The judgment called for the creation of two corporations to supervise the development in this district.

## **Tax Collection Agency Fund**

This fund records the current tax collections that are held by the City in the capacity of trustee. The collections are then transferred to the City funds and to other governmental units on a timely distribution basis. The fund also receives and distributes proceeds from delinquent personal property tax collections.

## **General Agency Fund**

The fund is used to record Public Act 495 escrow receipts and subsequent disbursements.

# City of Hamtramck, Michigan

## Trust and Agency Funds Combining Balance Sheet June 30, 2005

	Expendable Trust - Development Agreement Escrow	Agency		
		Tax Collection	General	Total
<b>Assets</b>				
Cash and investments	\$ 4,024,655	\$ 555,375	\$ 73,786	\$ 4,653,816
Due from other funds	<u>141,338</u>	<u>-</u>	<u>6,725</u>	<u>148,063</u>
Total assets	<u><b>\$ 4,165,993</b></u>	<u><b>\$ 555,375</b></u>	<u><b>\$ 80,511</b></u>	<u><b>\$ 4,801,879</b></u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 22,440	\$ -	\$ -	\$ 22,440
Due to other governmental units	-	252,708	-	252,708
Due to other funds	140,860	302,667	15,644	459,171
Accrued and other liabilities	<u>-</u>	<u>-</u>	<u>64,867</u>	<u>64,867</u>
Total liabilities	163,300	555,375	80,511	799,186
<b>Fund Balances - Reserved for</b>				
development agreement escrow	<u>4,002,693</u>	<u>-</u>	<u>-</u>	<u>4,002,693</u>
Total liabilities and fund balances	<u><b>\$ 4,165,993</b></u>	<u><b>\$ 555,375</b></u>	<u><b>\$ 80,511</b></u>	<u><b>\$ 4,801,879</b></u>



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December 19, 2005

Honorable Mayor and City Council  
City of Hamtramck  
3401 Evaline  
Hamtramck, MI 48212

Dear Mayor and Council Members:

We have recently completed our audit of the City of Hamtramck for the year ended June 30, 2005. As a part of our audit, we offer the following comments on your fiscal health and recommendations for improvements in your financial systems.

### **Recommendations**

#### **Internal Control Considerations**

The City has shown an ability to prepare accurate annual financial reports. We believe you should now focus your efforts on improving the reliability of the quarterly (or monthly) reporting. In order to accomplish this, several improvements would need to be made:

1. **Accounts payable:** The accounts payable system should be used throughout the year to enter every invoice as it comes in. In addition, the accounts payable balance on the general ledger should be reconciled quarterly to the detailed subsidiary ledger. This will improve the reliability of the budget to actual comparisons run throughout the year.
2. **Water and sewer customer receivables:** Water and Sewer customer receivables should be reconciled from the subsidiary ledger detail to the general ledger on a quarterly (or monthly) basis. As a result, the City will be able to identify any differences if they exist. Also, the accounts receivable sub ledger should be printed throughout the year.
3. **Property tax revenue recognition:** The City should begin recording property taxes on a modified accrual basis throughout the year rather than on a cash basis. In addition, all millage rates require City Council approval.
4. **Disaster Recovery Plan:** Currently, AS400/accounting system back ups are done on tapes daily and stored in a computer room. The AS400/accounting system back up is done monthly. However, files are not kept off-site. We recommend a more sufficient disaster plan be developed in order to protect files and not lose data. Also, the City's main file server and e-mail are backed up off-site weekly.

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### **Internal Control Considerations (Continued)**

5. **Performance Deposit Payments:** The City maintains individual files for each performance deposit received but does not reconcile the total of all deposits to the general ledger. We recommend a master listing be prepared and periodically reconciled to the general ledger.
6. **Bid Approval:** The City should maintain all supporting documentation relating to all bids solicited and awarded. In the current year, documentation for several items selected for testing could not be located.
7. **Accounting System:** When the City's accounting system closed the year-ended June 30, 2004, certain liability accounts opening balances did not roll forward into the next fiscal year. We recommend City look into the system glitch to ensure all balances are properly reflected.

### **Cash Receipts Recommendations**

During our testing, we noted the following observations:

- The City should identify one person to open all mail and restrictively endorse any cash receipts. In addition, this person should initiate the cash receipt process by entering the receipt into the cash register.
- During our testing of the parking cash receipts, we noted the electronic parking lot meter produces a report of money received. This report is maintained but not reconciled to the actual cash received and deposited in the bank. We suggest this report be reconciled to the bank statement deposits.

### **Cash Disbursements Procedures**

As part of our audit, we continue to note the need for improvements in cash disbursement procedures:

- All disbursements should be supported by an invoice, signed with an approval by an authorized employee, and coded with the general ledger account number. Several disbursements in our sample did not have all the items noted above readily available. In addition, purchase orders should be attached where required by policy, as well as packing slips, closing statements, etc.
- All invoices should be cancelled after they are paid, or some other method found to automate the prohibition of double payment. We discovered a few instances in which an invoice was not stamped paid; this was detected through manual review of disbursements in the controller's office.
- It was noted that the accounts payable listing had many old invoices that have actually been paid through payment agreements (primarily refuse and sewer bills). The City should investigate the invoices and determine if they have actually been paid and remove them from the subsidiary ledger.
- During accounts payable testing, it was noted the City's Police and Fire department officials use a gas credit card. State Law requires the City adopt a formal credit card policy.



### **Cash Disbursements Procedures (Continued)**

- During our testing, we noted a check was issued and the check date was before the invoice date. The City should record the invoice date within the general ledger as the date they are inputting the transaction as opposed to dating each invoice for the end of month.

### **Segregation of Duties**

Given the City's financial condition and reduced staffing levels, the city has been unable to provide a strong segregation of duties. As the financial conditions improve and staffing levels increase, the City should attempt to segregate the duties of the authorization, custody, and recording of items related to the cash disbursement, cash receipt, payroll and bank reconciliation processes.

### **Fixed Asset Records**

The City opted not to comply with the new governmental reporting requirements (GASB 34) primarily as a result of inadequate fixed asset records and the substantial costs with implementation. The City intends to implement the new reporting requirements when the financial position of the City improves. We believe you should begin to create records of fixed asset purchases and disposals, in order to facilitate the eventual conversion to the GASB 34 reporting model.

### **Special Assessments**

During the year ended June 30, 2004, the City had a one time special assessment for sidewalk replacement. During our testing we noted no one was responsible for reconciling the sub ledger to the general ledger and no one was trying to collect the unpaid balances that basically were unchanged from last fiscal year. We recommend the sub ledger be reconciled periodically to the general ledger. In addition, the City should transfer delinquent amounts to the tax rolls or begin other actions to ensure collection of the outstanding balance of approximately \$173,000 at June 30, 2005.

### **Control Over Grant Spending**

As noted in our previous audit letters, the City does not have an effective system of grant accounting. During the current year the City expended several million dollars from several different granting agencies and no one at the City could provide us any assistance as to the status of each grant. As a result, we went to the granting agencies and were able reconcile all activity in the general ledger after numerous adjustments. We recommend that an individual be given responsibility to maintain records of amounts received and spent on each grant, and to reconcile this quarterly to the general ledger.

### **Legal Compliance Items**

We recommend that the following items be considered, to ensure compliance with Michigan laws:

- **ACH Arrangements:** Recently Public Act 738 was passed, which allows local units of government to make and accept electronic fund transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the deposit of payroll, this new law requires a policy be adopted. We understand that such a policy has been drafted, but not yet approved by the

December 19, 2005

### Legal Compliance Items (Continued)

Board. In addition, wire transfers should also be reviewed by someone above the person primarily responsible for these transactions.

- **Investments:** During cash and investment testing, we noted the City does not actively buy or sell investments as a means of generating additional revenue. We suggest the City investigate possible investment opportunities. Maintaining, monitoring, and diversifying investment portfolios are a great way for the City to earn additional revenue to help maintain a positive fund balance. In addition, we noted the City has an investment policy, but per review of City Council minutes, the investment policy has not been approved by the Council. It is State Law that the City has a City Council approved investment policy.
- **Property tax distributions to county and schools:** The City should be remitting property taxes to all other taxing entities within ten business days of the 1<sup>st</sup> and 15<sup>th</sup> of each month. This should include timely remittance of IFT monies.

### Reportable Conditions

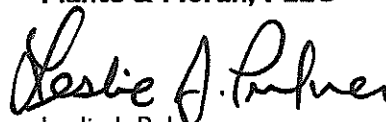
Reportable conditions are significant deficiencies in the design or operation of the internal controls structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In planning and performing our audit of the financial statements of the City of Hamtramck for the year ended June 30, 2005, we considered the City's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal controls. The purpose of an audit is to report on the financial statements, rather than provide assurance on the internal control structure; however, we would consider the items mentioned under the special assessment, water and sewer accounts receivable, and fixed asset record sections of this letter to be a reportable condition under standards established by the American Institute of Certified Public Accountants.

We would like to thank the City staff again this year for the cooperation and assistance they provided during the audit. If you have any questions or would like to discuss these items further, please contact us at your convenience.

Yours truly,

**Plante & Moran, PLLC**

  
Leslie J. Pulver

  
Carl A. Johnson, Jr.

# **City of Hamtramck, Michigan**

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**Federal Awards  
Supplemental Information  
June 30, 2004**

# City of Hamtramck, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Hamtramck, Michigan

We have audited the general purpose financial statements of the City of Hamtramck, Michigan for the year ended June 30, 2004 and have issued our report thereon dated December 17, 2004. In our opinion, because of the omission of the government-wide statements and the full accrual data for the combining statements of the discretely presented components units; the omission of general infrastructure assets and accumulated depreciation on general fixed assets; the fund-type presentation of its governmental and proprietary funds; the effects of not recording Enterprise Fund capital assets prior to 1986; the expenditure categories being aggregated on a different basis than that used in adopting the budget; and the City of Hamtramck, Michigan's net pension obligation being less than the actuarially required amounts, the general purpose financial statements do not present fairly the financial position of the City of Hamtramck, Michigan as of June 30, 2004. Those general purpose financial statements are the responsibility of the management of the City of Hamtramck, Michigan. Our responsibility was to express an opinion on those general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and  
Members of the City Council  
City of Hamtramck, Michigan

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City of Hamtramck, Michigan taken as a whole. Our expression of an adverse opinion related solely to those items listed in the first paragraph above, and did not relate to the modified accrual basis presentation of any individual governmental fund. The accompanying schedule of expenditures of federal awards and reconciliation of general purpose financial statements federal revenue with the schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Plante & Moran, PLLC*

December 17, 2004

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Honorable Mayor and  
Members of the City Council  
City of Hamtramck, Michigan

We have audited the financial statements of the City of Hamtramck, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated December 17, 2004. In our opinion, because of the omission of the government-wide statements and the full accrual data for the combining statements of the discretely presented components units; the omission of general infrastructure assets and accumulated depreciation on general fixed assets; the fund-type presentation of its governmental and proprietary funds; the effects of not recording Enterprise Fund capital assets prior to 1986; the expenditure categories being aggregated on a different basis than that used in adopting the budget; and the City of Hamtramck, Michigan's net pension obligation being less than the actuarially required amounts, the general purpose financial statements do not present fairly the financial position of the City of Hamtramck, Michigan as of June 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Hamtramck, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Hamtramck, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-04 through 04-10.

To the Honorable Mayor and  
Members of the City Council  
City of Hamtramck, Michigan

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-05 through 04-10 to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Hamtramck, Michigan in a separate letter dated December 17, 2004.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Hamtramck, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 04-01 through 04-03. We also noted certain immaterial instances of noncompliance that we have reported to the management of the City of Hamtramck, Michigan in a separate letter dated December 17, 2004.

This report is intended solely for the information and use of the city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

December 17, 2004



Report on Compliance with Requirements Applicable to  
Each Major Program and on Internal Control Over Compliance  
in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council  
City of Hamtramck, Michigan

## Compliance

We have audited the compliance of the City of Hamtramck, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The major federal programs of the City of Hamtramck, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Hamtramck, Michigan's management. Our responsibility is to express an opinion on the City of Hamtramck, Michigan's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hamtramck, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Hamtramck, Michigan's compliance with those requirements.

To the Honorable Mayor and  
Members of the City Council  
City of Hamtramck, Michigan

The City of Hamtramck, Michigan was unable to locate the original and unable to obtain a copy of the grant agreement for the Public Works and Economic Development Grant, which is a major federal program. We have reviewed and followed the Requirements for Approved Construction Projects published by the U.S. Department of Commerce and the A-133 Compliance Supplement in testing general provisions of the grant. However, there may be special provisions in the grant document itself of which we are unaware and were unable to test. Therefore, we are unable to, and do not, express an opinion relative to those special provisions.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the City of Hamtramck, Michigan's compliance with the special provisions related to the Public Works and Economic Development Grant, if any, the City of Hamtramck, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

### **Internal Control Over Compliance**

The management of the City of Hamtramck, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hamtramck, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Hamtramck, Michigan's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-11.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition item 04-11 described above to be a material weakness.

To the Honorable Mayor and  
Members of the City Council  
City of Hamtramck, Michigan

This report is intended solely for the information and use of the city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

March 9, 2006

# City of Hamtramck, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Passed through Wayne County:				
Community Development Block Grant - 2002	14.218	None	\$ 424,000	\$ 81,679
Community Development Block Grant - 2000	14.218	None	122,566	22,961
Section 108 Loan Funds - Streetscape Project	14.248	B-01-UC-26-0003	758,000	758,000
Section 108 Loan Funds - Development Escrow	14.246	03-35-03K 02	750,000	484,019
Brownfield Economic Development Initiative	14.246	DAF#03-21-012	650,000	<u>30,866</u>
Total U.S. Department of Housing and Urban Development				1,377,525
U.S. Department of Commerce Economic Development Administration - Public Works and Economic Development Grant	11.300	N/A	1,770,000	1,499,475
Federal Equitable Sharing Program	16.unknown	N/A	290,000	290,000
U.S. Department of Justice:				
Local Law Enforcement Block Grant 2002-LB-BX-2565	16.592	N/A	98,634	17,813
Local Law Enforcement Block Grant 2003-LB-BX-2565	16.592	N/A	<u>51,499</u>	<u>35,480</u>
Total U.S. Department of Justice			150,133	53,293
U.S. Environmental Protection Agency - Passed through Wayne County Brownfield Redevelopment Authority - Brownfield Pilots Cooperative Agreement - Revolving Loan Fund Program	66.811	3208F2	440,000	405,539
Federal Emergency Management Agency - 2002 Assistance to Firefighters Grant	83.554	N/A	67,440	3,754
U.S. Department of Health and Human Services - Passed through Michigan Office of Services to the Aging - Passed through the Detroit Area Agency on Aging - Chore Grant	93.044	2003 Contract	41,263	<u>3,438</u>
Total federal awards				<u><b>\$ 3,633,024</b></u>

# City of Hamtramck, Michigan

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## Reconciliation of General Purpose Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 1,807,315
Community Development Block Grant revenue recorded as deferred revenue in prior year recognized as revenue in the current year	(100,301)
Community Development Block Grant revenue recorded as deferred revenue in the current year	96,594
Brownfield Pilots Cooperative Agreement revolving loan programs receipts recorded as proceeds from long-term debt	324,400
Section 108 loan funds recorded as proceeds from long-term debt	484,019
Economic Development Administration Public Works and Economic Development revenue recorded as deferred revenue in the current year	272,342
Section 108 loan fund recorded as negative expenditures in the current year	758,000
State forfeiture revenue recorded as federal	(12,783)
Chore grant revenue record as state sources revenue	<u>3,438</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 3,633,024</u></u>

# **City of Hamtramck, Michigan**

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## **Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004**

### **Note - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Hamtramck, Michigan and is presented on the same basis of accounting as the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

# City of Hamtramck, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2004

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Adverse

Internal control over financial reporting:

- Material weakness(es) identified?   X   Yes        No
- Reportable conditions identified that are not considered to be material weaknesses?   X   Yes        None reported

Noncompliance material to financial statements noted?   X   Yes        No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified?   X   Yes        No
- Reportable condition(s) identified that are not considered to be material weaknesses?        Yes   X   None reported

Type of auditor's report issued on compliance for major program(s): Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?   X   Yes        No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
14.248	Section 108 Loan Funds - Streetscape Project
14.246	Section 108 Loan Funds - Development Escrow
14.246	Brownfield Economic Development Initiative
11.300	Public Works and Economic Development Grant
66.811	Brownfield Pilots Cooperative Agreement

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?        Yes   X   No

# City of Hamtramck, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

### Section II - Financial Statement Audit Findings

Reference Number	Findings
04-01	<p><b>Finding Type</b> - Noncompliance</p> <p><b>Condition</b> - Property taxes are not being distributed to other taxing entities on a timely basis.</p> <p><b>Description</b> - We recommend, and the City concurs, that property taxes should be distributed to the appropriate taxing entities within 10 business days of the 1<sup>st</sup> and 15<sup>th</sup> of each month.</p>
04-02	<p><b>Finding Type</b> - Noncompliance</p> <p><b>Condition</b> - The City has not adopted a policy for the authorization and documentation of wire transfers according to Public Act 738, which allows local units of government to make and accept electronic fund transfers (ACH payments).</p> <p><b>Description</b> - We recommend, and the City concurs, that a policy should be adopted for the authorization and documentation of wire transfers.</p>
04-03	<p><b>Finding Type</b> - Noncompliance</p> <p><b>Condition</b> - The City has an investment policy; however, it has not been approved by City Council.</p> <p><b>Description</b> - In order to comply with P.A. 196 of 1997, we recommend, and the City concurs, that the investment policy should be approved by City Council.</p>



# City of Hamtramck, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
04-04	<p><b>Finding Type</b> - Reportable condition</p> <p><b>Condition</b> - The City has not assigned the responsibility of opening the mail, restrictively endorsing checks received, and initiating the cash receipt process by entering receipts into the cash register to one person. There are instances in which the same individual who collects cash in the treasurer's office also reconciles cash at the end of the day. Additionally, bank deposits are not consistently made on a timely basis.</p> <p><b>Description</b> - We recommend, and the City concurs, that one individual should be assigned the responsibility of opening all mail, restrictively endorsing checks received, and entering these cash receipts into the cash register. An individual other than the person collecting cash should perform the cash reconciliation at the end of the day. Daily bank deposits should be made.</p>
04-05	<p><b>Finding Type</b> - Reportable condition, material weakness</p> <p><b>Condition</b> - The City did not reconcile the Water and Sewer Fund accounts receivable subsidiary trial balance to the general ledger.</p> <p><b>Description</b> - In order to maintain adequate internal control, monthly reconciliations between the accounts receivable subsidiary ledger and the general ledger should be prepared. We recommend, and the City concurs, that account reconciliations be prepared on a timely basis in the future.</p>
04-06	<p><b>Finding Type</b> - Reportable condition, material weakness</p> <p><b>Condition</b> - A budget is prepared at the beginning of the City's fiscal year; however, the accounting and reporting system in place to monitor actual revenues and expenditures compared to the budget are not set up on the same basis as the budget. Expenditure categories are being aggregated on a different basis than that used in preparing the budget. As a result, the City is not able to monitor its budget compliance effectively.</p> <p><b>Description</b> - We recommend, and the City concurs, that expenditures need to be aggregated on the same basis as that used to prepare the budget and the accounting system needs to be set up to match the budget or the budget changed to match the accounting records.</p>

# City of Hamtramck, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
04-07	<p><b>Finding Type</b> - Reportable condition, material weakness</p> <p><b>Condition</b> - Cash receipt reports generated by the electronic parking lot meters are not being maintained or reconciled to deposits in the bank statement.</p> <p><b>Description</b> - We recommend, and the City concurs, that these cash receipt reports should be reviewed and reconciled to deposits in the bank statement.</p>
04-08	<p><b>Finding Type</b> - Reportable condition, material weakness</p> <p><b>Condition</b> - Detailed records of performance deposits and Act 495 fire escrow deposits are not maintained and reconciled to the general ledger.</p> <p><b>Description</b> - We recommend, and the City concurs, that an individual should be assigned the responsibility of reconciling performance deposit and Act 495 fire escrow deposits to the general ledger on a timely basis.</p>
04-09	<p><b>Finding Type</b> - Reportable condition, material weakness</p> <p><b>Condition</b> - The accounts payable system is not used to track accounts payable during the year or to accumulate a subsidiary ledger to support the accounts payable balance recorded in the general ledger. Invoices are entered into the accounts payable system only when they are to be paid and the subsidiary ledger contains items that have previously been paid.</p> <p><b>Description</b> - We recommend, and the City concurs, that all payables need to be entered into the computerized accounts payable system and the detailed list of payables should be reconciled to the general ledger on a timely basis.</p>
04-10	<p><b>Finding Type</b> - Reportable condition, material weakness</p> <p><b>Condition</b> - The City does not maintain any listing of fixed assets owned by the City, including infrastructure costs such as water and sewer lines.</p> <p><b>Description</b> - We recommend, and the City concurs, that an inventory should be created and maintained to track all fixed assets for the City including infrastructure, equipment, and buildings. Limited staffing levels and limited financial resources have prevented the City from creating an accurate inventory listing.</p>

# City of Hamtramck, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

### Section III - Federal Program Audit Findings

Reference Number	Findings
04-11	<p><b>Program Name</b> - Public Works and Economic Development Grant (CFDA #11.300)</p> <p><b>Finding Type</b> - Reportable condition, material weakness</p> <p><b>Criteria</b> - Federal guidelines require the City to establish internal controls to ensure grant requirements are followed.</p> <p><b>Condition</b> - The City does not have a copy of the grant agreement and was unable to obtain another copy from the grantor.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Context</b> - Testing of the grant was performed through use of the Compliance Supplement and <i>Requirements Approved for Construction Projects</i>, published by the U.S. Department of Commerce. Special tests and provisions that may be outlined in the grant agreement could not be tested.</p> <p><b>Cause/Effect</b> - The City cannot adequately monitor grant activity and compliance without the grant agreement.</p> <p><b>Recommendation</b> - We recommend, and the City concurs, that the City should continue attempting to obtain the grant agreement from the grantor.</p> <p><b>Grantee Response</b> - The City concurs with this recommendation.</p>

# City of Hamtramck, Michigan

## Auditee Summary of Schedule of Prior Audit Findings Year Ended June 30, 2004

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
(1) Audit findings that have been fully corrected:					
06/30/03	03-4	Bank reconciliations were not done on a timely basis during the year.	N/A	N/A	Effective March 2003, all bank reconciliations were brought current and have been prepared timely for the subsequent months.
06/30/03	03-8	The City did not file any project performance reports during the year	11.300	N/A	The City currently has all performance reports filed relating to this grant.
(2) Audit findings that have not been corrected:					
06/30/03	03-1	The City does not have a formal, written investment policy approved by City Council.	N/A	N/A	The City has written an investment policy; however, it has not been approved by City Council.
06/30/03	03-2	Property taxes are not being distributed to other taxing entities on a timely basis.	NA	N/A	Due to the City's severe economic condition and limited staffing, this issue has not yet been addressed.
06/30/03	03-3	A budget is prepared at the beginning of the City's fiscal year; however, the accounting and reporting system in place to monitor actual revenues and expenditures compared to the budget are not set up on the same basis as the budget. Expenditure categories are being aggregated on a different basis than that used in preparing the budget. As a result, the City is not able to monitor its budget compliance effectively.	NA	N/A	Due to the City's severe economic condition and limited staffing, this issue has not yet been addressed.

## City of Hamtramck, Michigan

### Auditee Summary of Schedule of Prior Audit Findings (Continued) Year Ended June 30, 2004

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
(2) Audit findings that have not been corrected (continued):					
06/30/03	03-5	The accounts payable system is not used to track accounts payable during the year or to accumulate a subsidiary ledger to support the accounts payable balance in the general ledger. Invoices are entered into the accounts payable system only when they are to be paid and the subsidiary ledger contains items that have previously been paid.	N/A	N/A	Due to the City's severe economic condition and limited staffing, this issue has not yet been addressed.
06/30/03	03-6	The City did not reconcile the Water and Sewer Fund accounts receivable trial balance to the general ledger.	N/A	N/A	Due to the City's severe economic condition and limited staffing, this issue has not yet been addressed.
06/30/03	03-7	The City received approximately \$4,600 in revolving loan repayments (program income), which were not netted with allowable expenditures prior to making drawdown requests or repaid to the granting agency.	14.218	N/A	Due to the City's severe economic condition and limited staffing, this issue has not yet been addressed.